

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

May 14, 2007



The meeting was called to order at approximately 9:15 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Marjorie Berte
Robert F. Carlson
John Chiang
Rob Feckner
David Gilb, represented by Debbie Endsley
Bill Lockyer, represented by Steve Coony
Tony Oliveira
Kurato Shimada
Maeley Tom

Investment Committee members excused: Priya Mathur Mike Quevedo, Jr.

AGENDA ITEM 2 – APPROVAL OF APRIL 2007 MEETING MINUTES

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** that the April 16, 2007 Open Session minutes be approved as presented.

AGENDA ITEM 3a – POLICY SUBCOMMITTEE REPORT

Ms. Berte, Policy Subcommittee Vice Chair, presented the April 13, 2007 Subcommittee summary report.

On **MOTION** by the Subcommittee, the Investment Committee approved revisions of the following policies:

- Active International Fixed Income Externally Managed;
- Derivatives External Money Managers;
- Corporate Governance Investments; and
- Permissible Equity for Emerging Equity Markets.

The Committee also approved the adoption of a Corporate Governance Director Nominations policy.

The next Policy Subcommittee meeting is scheduled for June 15, 2007.

AGENDA ITEM 4a – TOTAL FUND, Rebalancing Account

Russell Read, Chief Investment Officer, and Rick Roth, Interim Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

The Investment Office Strategic Vision and Tactical Plan for the period ending June 30, 2008 includes an initiative to create a separate Asset Allocation Unit designed to focus on adding value across asset classes. The Asset Allocation Unit will use overlay accounts to efficiently reduce risk and to attempt to generate additional returns. Staff described the rebalancing and tactical overlay strategies and rationale.

The Committee accepted the information item.

AGENDA ITEM 5 – REAL ESTATE

There were no items to report.

AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

AGENDA ITEM 7a – GLOBAL FIXED INCOME, External High Yield Manager Annual Review

Curtis Ishii, Senior Investment Officer, Kevin Winter, Senior Portfolio Manager, and Todd Smith, Investment Officer, provided an overview of the performance of the managers. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED** to renew the contracts for CalPERS' three external high yield managers for a period of one year. The managers are:

- Highland Capital Management L.P.
- Nomura Asset Management Inc.
- Pacific Investment Management Company

AGENDA ITEM 8a – GLOBAL EQUITY, Emerging Markets Manager Company Reports

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item.

The annual Geopolitical and Investability Screening Reports were presented. The emerging equity marketing managers reported on portfolio holdings compared with geopolitical and investability factors and responded to questions from the Committee. The manager representatives were:

- Alliance Bernstein International Bonnie Orlowski and Henry D'Auria
- Dimensional Fund Advisors (DFA) –Sonya Park, Akbar Ali, and Michelle Lapoula
- Genesis Asset Managers Karen Yerburgh and Catherine Vlasto

The Committee accepted the information report.

AGENDA ITEM 8b – GLOBAL EQUITY, Manager Development Program (MDP) II Investment Charter Revision

Christy Wood, Senior Investment Officer, Mary Cottrill, Senior Portfolio Manager, and Derek Hayamizu, Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

Staff recommended that the MDP II partners' investment charters be amended to expand the opportunity set for permitted investments. Given the opportunistic approach of the program, this change will provide flexibility to CalPERS by allowing the MDP II to evolve alongside CalPERS' other external manager programs without requiring additional investment charter amendments. Any new strategies the Investment Committee may approve for external management at a future date will automatically be included in the investment charter, unless specifically prohibited.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to amend the MDP II partners' investment charters to expand the permitted investments to include those investment strategies that are externally managed in CalPERS' public markets programs, excluding hedge funds and funds of emerging hedge funds.

AGENDA ITEM 8c – GLOBAL EQUITY, Consultant Review of Internal Passive Equity Portfolios

Michael Schlachter, Wilshire Associates, presented the item. As part of Wilshire's contractual requirement to periodically review all of the internal asset management functions, Wilshire conducted an on-site review of the Global Equity internal index team's personnel, investment process, and resources.

The Committee accepted the information report.

AGENDA ITEM 8d – GLOBAL EQUITY, Corporate Governance Update – UnitedHealth Proxy Access Proposal

Christy Wood, Senior Investment Officer, provided an update regarding the status of joint CalSTRS-CalPERS' sponsorship and campaign in support of the UnitedHealth shareowner proposal. UnitedHealth's annual general meeting will be on May 29.

The Committee accepted the information report.

AGENDA ITEM 9a – SUPPLEMENTAL INCOME PLANS, Supplemental Income Plans Consolidated Delegation

Geraldine Jimenez, Supplemental Income Plans Division Chief, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

As part of the ongoing Policy and Delegation Review Project, Investment staff and the investment consultants, as well as the CalPERS Legal and Compliance Office staff, have been working together to create a single document that will hold all of the Investment staff's delegated authority in a single location.

In July 2005, the Supplemental Income Plans (SIP) program was transferred to the Investment Office. Staff presented the SIP Consolidated Delegation, which reflects a new set of delegations.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve the Supplemental Income Plans Consolidated Delegation.

The adoption of this resolution completes the delegation review portion of the Policy and Delegation Review Project.

New Lineup Transition for Supplemental Income Plans

Anne Stausboll, Assistant Executive Officer, reported that the transition to the SIP's new lineup was completed recently. Staff were acknowledged for the smooth transition of approximately 75% of the program participants, which involved over 70,000 transactions.

AGENDA ITEM 10a - LEGISLATION, Assembly Bill 221 - Iran Divestment

Wendy Notsinneh, Governmental Affairs Office Chief, presented the item.

This bill would prohibit CalPERS and CalSTRS from investing in a company that is invested or is engaged in business operations with entities in the defense, oil, nuclear, or natural gas sectors of Iran; or is engaged in business operations with an Iranian organization labeled as a terrorist organization by the United States government. Also, the bill would require the retirement system boards to sell or transfer any investments in these companies and report to the Legislature.

Divestment legislation presents unique challenges because of the many issues and interests involved. CalPERS' legislative policy suggests an oppose position on proposals that impose any investment mandate or restriction on the Board's investment authority. In addition, once CalPERS divests from any particular company, it loses the opportunity to constructively engage the company to effectuate positive change.

There was discussion regarding CalPERS' legislative policy, fiduciary responsibilities, divestment pros and cons, and past divestment experiences.

The following individuals spoke in support of AB 221:

- Shane Gusman, Broad & Gusman, LLP
- Cliff Berg, AIPAC, JPAC and Simon Weisehthal, LLP
- Hassi Sadri, IACC and CPI
- Mike Azar, CPI

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to approve an oppose position on AB 221 (Anderson) as amended May 1, 2007.

State Controller Chiang and Mr. Coony, representing the State Treasurer, voted no.

AGENDA ITEM 11a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Russell Read, Chief Investment Officer, presented the item. The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of March 31, 2007, was approximately \$234.8 billion and the total book value was approximately \$182.5 billion.

AGENDA ITEM 11b – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Assistant Executive Officer's Status Report

The Committee accepted the Assistant Executive Officer's Status Report

AGENDA ITEM 12 – DRAFT JUNE 2007 AGENDA

The Committee accepted the proposed June 18, 2007 agenda.

AGENDA ITEM 13 – PUBLIC COMMENT

There were no additional comments from the public.	
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	~~~

At this point, Russell Read, Chief Investment Officer, stated that "out of an abundance of caution and consistent with state law conflict rules, I will recuse myself from Investment Committee Closed Session Agenda Item 3a [Towers Project Update] because of a conflict of interest under Government Code Section 87100."

The meeting was adjourned at 10:55 a.m.

The next Investment Committee meeting is scheduled for June 18, 2007 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer